

PUBLIC DISCLOSURE

DECEMBER 20, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MELROSE CO-OPERATIVE BANK

638 MAIN STREET
MELROSE, MA 02176

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Melrose Co-operative Bank (or the "Bank")** prepared by the Division, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

The rating of this institution is firmly established upon five performance criteria as shown in the public evaluation as well as a thorough review of investments and services. The assessment of Melrose Co-operative Bank's record of performance is based upon its efforts in meeting the criteria outlined in this report.

The analysis of the Bank's net loan-to-deposit ratio was reviewed over the past eight quarters and stands at 67.1 percent as of September 30, 2004. This ratio has averaged 62.5 percent over the previous eight quarters. A comparison of the dollar amount for the Bank's loans and deposits as of December 31, 2002 was compared to that of September 30, 2004. This comparison revealed that net loans have increased by 9.9 percent, while deposits for the same period have increased by 9.7 percent. Based on this information, Melrose Co-operative Bank is considered to meet the standards for satisfactory performance in this area.

A review of Melrose Co-operative Bank was conducted utilizing the 2002, 2003, and year-to-date November 30, 2004 Home Mortgage Disclosure Act ("HMDA") data. During this period, the Bank originated or purchased 273 HMDA reportable loans totaling approximately \$65,206,000. Of these loans, 129 or 47.3 percent were originated inside the Bank's assessment area totaling \$27,011,000 or 41.4 percent. The Bank's comparison of credit extended inside and outside of the assessment area does not meet the standards for satisfactory performance as a majority of the loans originated over the past three years were outside of the Bank's assessment area.

An analysis of HMDA reportable originations by income of the borrower was also conducted utilizing the HMDA Loan Application Register ("LAR") data for 2002, 2003, and year-to-date November 30, 2004. Melrose Co-operative Bank extended 10 HMDA reportable loans to low-income borrowers representing 7.7 percent of total originations within the assessment area. In addition, the Bank extended 25 loans to moderate-income borrowers, representing 19.4 percent of the HMDA reportable originations inside the assessment area. Melrose Co-operative Bank ranked sixth in lending to low and moderate-income individuals within its assessment area. Melrose Co-operative Bank is considered to meet the standards for satisfactory performance in this area.

The Bank's HMDA reportable loans located within the assessment area were further analyzed to determine their location by census tract income level. Of the 129 HMDA reportable loans originated within the assessment area during the review period, 80.6 percent were granted in middle-income census tracts and 19.4 percent were made in upper-income census tracts. Melrose Co-operative Bank is considered to meet the standards for satisfactory performance in this area.

At management's request, the Division considered investments and services in the overall rating. The Bank's activities in these areas enhanced credit availability within its assessment area and contributed to the overall rating of satisfactory.

Finally, there were no complaints received by the Bank pertaining to its CRA performance and the fair lending examination revealed no evidence of discriminatory or illegal credit practices.

PERFORMANCE CONTEXT

Description of Institution

Melrose Co-operative Bank is a state chartered co-operative financial institution with a single office located at 638 Main Street in Melrose, Massachusetts. As of September 30, 2004, assets totaled \$115,202,000, of which 59.0 percent were in the form of net loans.

Refer to the following table for additional information on the breakdown of loans.

Loan Portfolio Composition

Loan Type	Amount (000s)	Percent
One to Four-Family Residential Mortgages	\$ 56,598	82.7%
Equity Lines of Credit	\$ 6,538	9.5%
Construction and Land Development	\$ 3,265	4.8%
Nonfarm Nonresidential Properties	\$ 1,241	1.8%
Consumer Loans	\$ 627	0.9%
Multifamily Residential	\$ 214	0.3%
Total Gross Loans	\$68,483	100.0%

Source: September 30, 2004 Consolidated Report of Condition.

Melrose Co-operative Bank is primarily a residential lender with 82.7 percent of loans consisting of 1-4 family residential mortgages, followed by equity lines of credit with 9.5 percent, and construction and land development with 4.8 percent.

Melrose Co-operative Bank has strong competition from several financial institutions within its assessment area. Financial institutions that are located within the assessment area include but are not limited to the following: Central Bank, MassBank, and Eastern Bank, as well as representatives of regional and national banking and mortgage companies. The market influence from these institutions appears to be significant, and as a result serves to keep the Bank's rates and services offered competitive.

PERFORMANCE CONTEXT (CONTINUED)

Description of Institution (Continued)

Market share information obtained from PCI Services, Inc. CRA WIZ, based on 2003 aggregate performance data indicates 254 mortgage companies, savings banks, commercial banks, cooperative banks, and credit unions have either originated or purchased residential mortgage loans within the Bank's assessment area. A further analysis of the aggregate indicates that 4,165 HMDA reportable loans were originated within the Bank's assessment area during 2003. Out of these 254 lenders, Melrose Co-operative Bank ranked 18th for loan originations.

There are no financial or legal impediments, which could limit the Bank's ability to help meet the credit needs of the assessment area. The Bank's most recent CRA evaluation was performed by the Federal Deposit Insurance Corporation ("FDIC") as of November 12, 2003. That examination resulted in a CRA rating of Satisfactory. The Division last examined Melrose Co-operative Bank as of May 10, 1999, and that examination also resulted in an overall rating of "Satisfactory".

Description of Assessment Area

Melrose Co-operative Bank defines its assessment area as the City of Melrose. The City of Melrose is located in the Boston Metropolitan Statistical Assessment Area ("MSA") for 2002 and 2003, while the designation changed for 2004 information to the Cambridge-Newton-Framingham, MA MD.

According to the 2000 Census Data, the Bank's assessment area contained a total population of 27,134 individuals, of which 5.5 percent are minorities. The census data also indicates the assessment area included 11,248 housing units of which 7,365 or 65.5 percent are owner-occupied.

The examiners utilized 1990 census data when analyzing 2002 data and 2000 census data when analyzing 2003 and 2004 data.

The median family incomes for the Boston MSA for 2002 and 2003 were \$74,200 and \$80,800, respectively while the median family income for the 2004 information was \$88,600. The income figures are based on estimated Department of Housing and Urban Development ("HUD") information. Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

Like much of Massachusetts, the assessment area's housing prices continue to significantly increase. The average median sales price in the assessment area in 2004 was \$289,800. The continued increase in home prices presents an obvious impediment for many low and moderate-income individuals pursuing homeownership.

PERFORMANCE CONTEXT (CONTINUED)

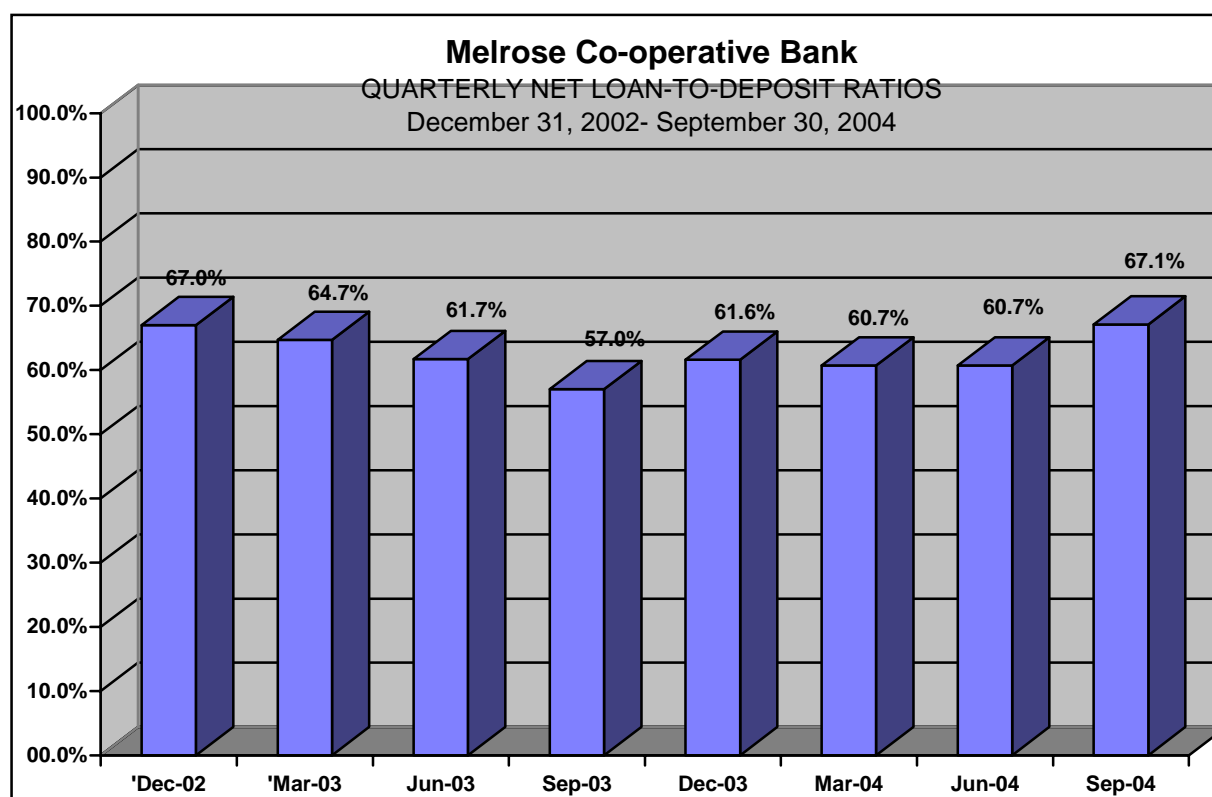
City of Melrose

The Bank's designated CRA assessment area is the City of Melrose, which is a municipality located approximately ten miles north of Boston and is about four square miles in area. The City of Melrose contains five census tracts, four that are designated as middle-income tracts and one as upper-income. The City of Melrose contains many residential properties with some light industrial businesses, mostly located in the City's downtown area. According to the 2000 US Census data, the City of Melrose contains five census tracts, four of which are considered middle-income and one is upper-income.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

An analysis of Melrose Co-operative Bank's net loan-to-deposit ratio was performed during the examination. The analysis utilized the last eight quarters of the FDIC Call Report data for this institution. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total deposits. The Bank's net loans to total deposits as reported to the FDIC were reviewed from the quarters beginning December 31, 2002 through September 30, 2004. The Bank's average net loan to deposit ratio for this time period was determined to be 62.5 percent. The net loan-to-deposit ratio has remained somewhat steady during the time period reviewed. Data from December 31, 2002 through September 30, 2004 indicates how equivalent the loans and deposits increased. During this time period, net loans increased approximately 9.9 percent, while total deposits increased approximately 9.7 percent. The following graph depicts the net loan-to-deposit ratio for each quarter under review.



Based on the above information and Melrose Co-operative Bank's capacity to lend, the strong competition from other institutions in the assessment area, demographic and economic factors present in the assessment area, and the lending opportunities available in the assessment area, the Bank's net loan to deposit ratio is considered to meet the standards for satisfactory performance.

PERFORMANCE CRITERIA (CONTINUED)

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

Melrose Co-operative Bank's 2002, 2003, and year-to-date November 30, 2004 LARs were reviewed to determine the amount of credit extended within the Bank's assessment area. During this period, the Bank originated or purchased 273 HMDA reportable loans totaling approximately \$65,206,000. Of these loans, 129 or 47.3 percent were originated inside the Bank's assessment area totaling \$27,011,000 or 41.4 percent.

Refer to the following tables for additional information regarding the Bank's HMDA reportable lending, by both number and dollar volume.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2002	44	47.8%	9,225	45.9%	48	52.2%	10,867	54.1%
2003	55	51.4%	11,063	46.3%	52	48.6%	12,814	53.7%
2004	30	40.5%	6,723	31.7%	44	59.5%	14,514	68.3%
Total	129	47.3%	27,011	41.4%	144	52.7%	38,195	58.6%

Source: 2002, 2003 and year-to-date November 30, 2004 HMDA DATA

As indicated in the table above, less than a majority of loans originated during the examination period were inside the Bank's assessment area.

Based on the above information, the analysis indicates that the Bank's comparison of credit extended inside and outside of the assessment area does not meet the standards for satisfactory performance as less than a majority of the loans were granted inside the assessment area.

3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS

The Bank's HMDA reportable loans were further analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family incomes for the Boston MSA for 2002 and 2003, and the Cambridge-Newton-Framingham, MA MD for 2004. The income figures are based on estimated HUD information.

The following table shows, by number, HMDA reportable loans to low, moderate, middle and upper-income borrowers in comparison to the percentage of households within the assessment area in each respective income group.

PERFORMANCE CRITERIA (CONTINUED)

3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS (CONTINUED)

Distribution of HMDA Reportable Loans Within the Assessment Area to Borrowers of Different Income Levels by Number

Distribution of HMDA Loans by Borrower Income – City of Melrose									
Median Family Income Level	% Total Family Households	2002		2003		2004*		Total	
		#	%	#	%	#	%	#	%
Low	12.2%	1	2.3%	5	9.1%	4	13.3%	10	7.7%
Moderate	15.8%	4	9.1%	15	27.3%	6	20.0%	25	19.4%
Middle	25.4%	14	31.8%	14	25.4%	8	26.7%	36	27.9%
Upper	46.6%	22	50.0%	16	29.1%	10	33.3%	48	37.3%
NA	N/A	3	6.8%	5	9.1%	2	6.7%	10	7.7%
Total	100.0%	44	100.0%	55	100.0%	30	100.0%	129	100.0%

Source: U.S. Census, 2002, 2003, and year-to-date November 30, 2004 HMDA LAR

During 2002, 2003, and year-to-date November 30, 2004, Melrose Co-operative Bank extended ten HMDA reportable loans to low-income borrowers representing 7.7 percent of total originations within the assessment area. Although this percentage is below the 12.2 percent of low-income family households within the assessment area, there are mitigating factors present that account for this disparity such as competition, the percentage of people living below the poverty level who cannot afford to purchase a home, as well as the escalating prices of homes throughout Melrose.

In addition, the Bank extended 25 loans to moderate-income borrowers, representing 19.4 percent by number inside the assessment area. The number of loans to moderate-income borrowers is above the 15.8 percent of moderate-income family households within the assessment area.

When comparing the Bank to the percentage of low and moderate-income family households throughout the assessment area, it appears the Bank's lending to low and moderate-income borrowers is equivalent.

The distribution of the Bank's loans among various borrower income levels may also be compared to that of all other HMDA-reportable lenders in the assessment area. Other HMDA reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions, and mortgage companies. The most recent year for this comparison is 2003.

The following table shows the Bank's distribution of loans among various income levels compared to that of all other 254 HMDA reportable lenders for calendar year 2003 throughout the Bank's assessment area.

PERFORMANCE CRITERIA (CONTINUED)

3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS (CONTINUED)

Distribution of HMDA Reportable Loans – Assessment Area Melrose Co-operative Bank Compared to All Other Reporters								
Median Family Income Level	Number of Loans				Dollar Amount of Loans			
	Melrose Co- operative Bank		All Other Reporters		Melrose Co- operative Bank		All Other Reporters	
	#	%	#	%	\$(000)	%	\$(000)	%
Low	5	9.1%	171	4.1%	394	3.6%	23,397	2.6%
Moderate	15	27.3%	647	15.5%	2,225	20.1%	116,686	12.9%
Middle	14	25.4%	1,173	28.2%	3,015	27.3%	245,108	27.2%
Upper	16	29.1%	1,594	38.3%	4,073	36.8%	381,646	42.3%
NA	5	9.1%	580	13.9%	1,356	12.2%	134,881	15.0%
Total	55	100.0%	4,165	100.0%	11,063	100.0%	901,718	100.0%

Source: HMDA LAR 2003 HMDA Aggregate Data

As shown above, the Bank's percentage of lending to borrowers of low-income is above the aggregate by number and dollar amount for 2003. Melrose Co-operative Bank originated 9.1 percent by number and 3.6 percent by dollar amount of the total HMDA loans within the assessment area to low-income borrowers, compared to the aggregate with 4.1 percent by number and 2.6 percent by dollar amount.

The Bank's HMDA reportable loans originated during 2003 to moderate-income borrowers accounted for 27.3 percent by number and 20.1 percent by dollar amount within the assessment area. Both number and dollar amount were above the aggregate's lending to moderate-income borrowers for 2003 as 15.5 percent by number and 12.9 percent by dollar volume were originated to moderate-income borrowers.

An analysis was performed to determine how the Bank's originations compare to all other lenders within the assessment area. During 2003, the most recent data available, Melrose Co-operative Bank ranked fifth in lending to low-income borrowers in the assessment area and ranked seventh in lending to moderate-income borrowers. Overall, the Bank ranked sixth in lending to low and moderate-income borrowers throughout the assessment area.

Based on the information above, the Bank's lending to borrowers of different income levels, including those of low and moderate-income, reflects a good performance. Melrose Co-operative Bank is considered to meet the standards for satisfactory performance under the distribution of credit among borrowers of different income levels.

4. GEOGRAPHIC DISTRIBUTION

The Bank's HMDA reportable loans located within the assessment area were further analyzed to determine their location by census tract income level. The assessment area is comprised of five census tracts, four which are considered middle-income and one that is considered upper-income. Of the 129 HMDA reportable loans originated during the review

PERFORMANCE CRITERIA (CONTINUED)

4. GEOGRAPHIC DISTRIBUTION (CONTINUED)

period, 80.6 percent were granted in middle-income census tracts and 19.4 percent were made in upper-income census tracts.

Based on the analysis of the geographic distribution of HMDA reportable loans, the Bank has penetrated all census tracts throughout the assessment area and has dispersed loans in a manner consistent with the demographics. Melrose Co-operative Bank's performance in this criterion is considered to meet the standards for satisfactory performance.

5. FAIR LENDING POLICES AND PRACTICES

A review of the Bank's public comment file indicated that the Bank received no complaints pertaining to the institution's CRA performance since the previous examination. In addition, a review of the Bank's residential loan application files was conducted to evaluate its fair lending policies and procedures. There were no discriminatory practices evident in the file review.

Melrose Co-operative Bank's marketing and advertising is accomplished primarily through the Melrose Free Press and other local publications, lobby signs, banners, statement stuffers, program books for local non-profit organizations and giveaways.

Minority Application Flow

The loan application registers for 2002, 2003, and year-to-date November 30, 2004 were reviewed to determine if the application flow from the different racial groups within the Bank's assessment area was reflective of the area's demographics. Of the 145 HMDA reportable applications received from within the Bank's assessment area, 91.7 percent were from white applicants, 2.8 percent were from minority applicants, and the remaining 5.5 percent were designated as NA. Of the total applications received from minority applicants, all of them were originated.

Melrose Co-operative Bank's minority application flow in 2003 was also compared to all other HMDA reportable lenders accepting applications from within the Bank's assessment area. As indicated in the following table, the Bank's minority application flow was slightly lower than the aggregate. Aggregate data indicates that 3.6 percent of total applications were received from minority applicants in comparison to only 1.7 percent received by the Bank. Refer to the following table for more information.

5. FAIR LENDING POLICES AND PRACTICES (CONTINUED)

Minority Application Flow (Continued)

MINORITY APPLICATION FLOW										
Race	Aggregate Data 2003*		Bank 2002		Bank 2003		Bank 2004**		Bank Total	
	#	%	#	%	#	%	#	%	#	%
<i>Native American</i>	13	0.2	0	0.0	0	0.0	0	0.0	0	0.0
<i>Asian</i>	55	1.1	0	0.0	0	0.0	1	3.0	1	0.7
<i>Black</i>	23	0.5	0	0.0	1	1.7	0	0.0	1	0.7
<i>Hispanic</i>	40	0.8	0	0.0	0	0.0	0	0.0	0	0.0
<i>Other</i>	52	1.0	1	1.9	0	0.0	0	0.0	1	0.7
<i>Joint Race</i>	0	0.0	0	0.0	0	0.0	1	3.0	1	0.7
Total Minority	183	3.6	1	1.9	1	1.7	2	6.0	4	2.8
<i>White</i>	3,679	71.8	49	94.2	55	91.7	29	87.9	133	91.7
<i>No Info</i>	1,264	24.6	2	3.9	4	6.6	2	6.1	8	5.5
Total	5,126	100.0	52	100.0	60	100.0	33	100.0	145	100.0

*Source: PCI Services, Inc., CRA Wiz Software. **year-to-date November 30, 2004

QUALIFIED INVESTMENTS & SERVICES

Upon management's request, the Bank's performance in the area of qualified investments and services was reviewed. To be considered for review, an investment or service must meet the definition of community development. Community development purposes are defined as affordable housing, community service, economic development, and community stabilization/revitalization. Community development services must relate to the provision of financial services.

Investments

The Bank's investments for 2002, 2003, and year-to-date November 30, 2004 consisted of monetary contributions to local charitable groups and membership fees to business organizations.

Contributions were granted over the time period reviewed to several charitable organizations. Organizations include Homeowners Options for Massachusetts Elders, Mystic Valley Elder Services, Melrose Affordable Housing Corporation, and Melrose Council on Aging. The Bank has granted CRA contributions of approximately \$29,000 over the time period reviewed. Two of the largest contributions were granted to the Melrose Affordable Housing Corporation and the Melrose Council on Aging.

In addition to the monetary contributions noted above, Melrose Co-operative Bank donated a photocopy machine to the Melrose Housing Authority in 2003.

QUALIFIED INVESTMENTS & SERVICES (CONTINUED)

Services

Melrose Co-operative Bank's sole office is located at 638 Main Street in Melrose, Massachusetts. Business hours are reasonable with extended Thursday and Friday evening hours until 7:00 pm and Saturday banking hours of 8:30 am to 12:30 pm. In addition, the bank employs several individuals who speak a foreign language that could assist customers.

Melrose Co-operative Bank is also a member of the SUM network of automated teller machines ("ATM"s), a surcharge-free alliance of several financial institutions that include over 1,000 ATMs throughout Massachusetts. The Bank's customers can avoid ATM surcharges by conducting business at alliance members' ATMs that bear the SUM logo.

A review of Melrose Co-operative Bank's lending revealed loans were brokered through Plymouth Savings Bank. Melrose Co-operative Bank does not make the credit decision nor does the institution fund these loans, therefore, these loans are not reported on the HMDA register. However; by offering this product, Melrose Co-operative Bank provides a service to individuals and customers within its assessment area and beyond. The analysis from January 1, 2002 through November 30, 2004, indicates that Melrose Co-operative Bank brokered 95 loans totaling \$17,515,800 through Plymouth Savings Bank. Of these loans, 52 or 54.7 percent totaling \$8,769,100 or 50.1 percent were to individuals in Melrose.

Community Development Services

Melrose Co-operative Bank is considered proactive within its assessment area. Officers, directors, and employees are involved with community organizations that address economic and affordable housing development. Through these involvement's, the Bank's staff lends their technical expertise, experience and judgment to these organizations. Following are some examples:

The Bank's Vice President/CRA Officer served as the President of Mystic Valley Elder Services during 2003 and currently serves as a member of the Board of Directors. This organization specializes in providing assistance and access to services for elders in surrounding communities including Melrose.

A Board Member currently serves as Chairman of the Melrose Housing Authority.

A Board Member serves as President of the Melrose Affordable Housing Corporation. Additionally, the Bank's CRA Officer also serves as the Treasurer of this organization.

QUALIFIED INVESTMENTS & SERVICES (CONTINUED)

Flexible Lending Products

Melrose Co-operative Bank takes full advantage of flexible lending products to assist low and moderate-income borrowers become home owners. The Bank provides financing through Mass Housing's "Take the T Home Program." These loans are granted with flexible underwriting guidelines including 95-100 percent loan to value. From 2002, 2003, and year-to-date November 30, 2004, Melrose Co-operative Bank originated seven loans through this program totaling \$2,077,750.

During April 2004, Melrose Co-operative Bank granted a \$279,000 mortgage to the Melrose Affordable Housing Corporation. The property is a three-family dwelling with very favorable mortgage financing terms provided by Melrose Co-operative Bank to be made available for rental for moderate-income families.

The investments and services described above benefit the community and low and moderate-income individuals and provide additional support to the overall rating of Satisfactory.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 638 Main Street in Melrose, Massachusetts.

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing.

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.